



March 22, 2004

# First Citrus Bank

Ms. Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551  
Rc: Docket No. R-1181

## RE: Proposed Revisions to the Community Reinvestment Act Regulations

Dear Ms. Johnson:

I ~~am~~ writing to support the federal bank regulatory agencies' (Agencies) **proposal** to enlarge the number of **banks and** saving associations that will be examined **under** the small institution Community Reinvestment Act (CRA) examination. The Agencies propose to increase the asset threshold ~~from~~ **\$250** million to \$500 million and to eliminate any consideration of whether the small institution is owned by a holding company. This proposal is clearly a major step towards an appropriate implementation of the Community Reinvestment Act **and** should greatly reduce regulatory burden on those institutions newly made eligible for the small institution examination, and I strongly support both of them.

When the CRA regulations were rewritten in 1995, the banking industry recommended that community banks **of** at least \$500 million be eligible for a less burdensome small institution examination. The most significant improvement in the new regulations was the addition of that small institution CRA examination, which actually did what the **Act** required: had examiners, during their examination ~~of the bank,~~ look **at** the bank's loans **and** assess whether the **bank was** helping to meet the credit needs of the bank's entire community. It imposed no investment requirement on small **banks,** since the **Act is** about credit not investment. It added no **data** reporting requirements on **small** banks, fulfilling the promise ~~of the Act's~~ sponsor, Senator Proxmire, that there would be no additional paperwork or record keeping burden on **banks** if the Act **passed.** **And it** created a simple, understandable **assessment** test of the **bank's** record ~~of~~ providing credit **in** its community: the test considers the institution's loan-to-deposit ratio; the percentage of loans **in** its assessment areas; its record of lending to **borrowers** of different income levels and businesses **and** farms of different sizes; the geographic distribution of its loans; and its record of raking action, if warranted, in response to written complaints about **its** performance in helping to meet credit needs in its **assessment areas.**

President and  
Chief Executive Officer  
John M. Barrett

Chairman of the Board  
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Since then, the regulatory burden on small banks **has** only grown larger, including massive new reporting requirements under HMDA, the USA Patriot Act and the privacy provisions of the Gramm-Leach-Bliley Act. But the nature of community banks **has** not changed. When a community **bank** must comply with the requirements of the large institution CRA examination, the costs to and burdens on that community bank increase dramatically. In looking at my bank, converting to the large institution examination requires, **among** other things, that we devote additional staff **time** to documenting services **and** investments, which we currently do not do, and begin to geocode all of our loans that **might** have CRA **value**. **This** imposes a dramatically higher regulatory burden that **drains** both money and personnel away from helping to **meet** the credit needs of the institution's community.

I believe **that** it **is** as true today **as** it was in 1995, **and** in **1977** when **Congress** enacted CRA, that **a** community bank meets the credit needs **of** its community **if** it makes a certain amount of loans relative to deposits taken. **A** community bank is typically non-complex; it takes deposits **and makes** loans. **Its** business activities are **usually** focused on small, defined geographic areas where the bank is **known** in the community. The **small** institution examination accurately captures the information necessary for examiners to assess whether a community **bank** is helping to meet **the** credit needs of **its** community, **and nothing** more **is** required to **satisfy** the Act.

**As** the Agencies state in their proposal, raising the small institution CRA examination threshold to \$500 makes numerically more community **banks** eligible. However, in reality raising the asset threshold to \$500 million **and** eliminating the holding company limitation would retain the percentage of industry assets subject to the large retail institution test. It would decline **only slightly, from** a little more than 90% to **a little less** than 90%. That decline, **though** slight, would more closely align the current distribution of assets between **small and** large banks with the distribution that **was** anticipated when the Agencies adopted the definition of "small institution." **Thus,** the Agencies, in revising the CRA regulation, are really just preserving the *status quo* of the regulation, which has been altered by **a** drastic decline in **the** number of banks, inflation **and an** enormous increase in **the** size of large banks. I believe that the Agencies need to provide greater relief to community banks than just preserve the *status quo* of this regulation.

While the small institution test **was** the most **significant improvement of the** revised CRA, it was wrong to limit its application to **only banks** below **\$250** million in assets, depriving many community banks **from any** regulatory relief. Currently, a bank with more **than** \$250 million in assets faces significantly more requirements that substantially increase regulatory burdens without consistently producing additional benefits as contemplated by the **Community Reinvestment Act**. In today's banking market, even a \$500 million bank often **has** only a handful of branches. I recommend raising the asset threshold for the small

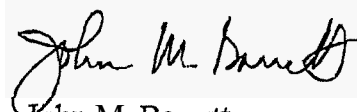
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institution examination to at least \$1 billion. Raising the limit to \$1 billion is appropriate for two reasons. First, keeping the focus of small institutions on lending, which the small ~~institution~~ examination does, would be entirely consistent with the purpose of the Community Reinvestment Act, which is to ensure that the Agencies evaluate how banks help to meet the credit needs of the communities they serve.

Second, raising the limit to \$1 billion Will have only a small effect on the amount of total industry assets covered under the ~~more~~ comprehensive large bank test. According to the Agencies' own findings, raising the limit from \$250 to \$500 million. would reduce total industry assets covered by the large bank rest by less than one percent. According to December 31, 2003, Call Report data, raising the limit to \$1 billion will reduce the amount of assets subject to the much more burdensome large institution test by only 4% (to about 85%). Yet, the additional relief provided would, again, be substantial, reducing the compliance burden on more than 500 additional banks and savings associations (compared to a \$500 million limit). Accordingly, I urge the Agencies to raise the limit to at least \$1 billion, providing significant regulatory relief while, to quote the Agencies in the proposal, not diminishing "in any way the obligation of all insured depository institutions subject to CRA to help meet the credit needs of their communities. Instead, the changes are meant only to address the regulatory burden associated with evaluating institutions under CRA."

In conclusion, I strongly support increasing the asset-size of banks eligible for the small bank streamlined CRA examination process as a vitally important step in revising and improving the CRA regulations and in reducing regulatory burden. I also support eliminating the separate holding company qualification for the small institution examination, since it places small community banks that are part of a larger holding company at a disadvantage to their peers and has no legal basis in the Act. While community banks, of course, still will be examined under CRA for their record of helping to meet the credit needs of their communities, this change will eliminate some of the most problematic and burdensome elements of the current CRA regulation from community banks that are drowning in regulatory red-tape.

Sincerely,



John M. Barrett  
President and  
Chief Executive Officer

